

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

---

**REPORT ON AUDIT OF BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION AND SINGLE AUDIT**

---

**FOR THE YEAR ENDED MARCH 31, 2010**

---

**TABLE OF CONTENTS**

---

	<b>PAGE</b>
<b>Independent Auditor's Report on Basic Financial Statements and Other Supplemental Information .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>i-v</b>
<b>Basic Financial Statements</b>	
Statement of Net Assets .....	2
Statement of Revenues, Expenses and Changes in Net Assets .....	3
Statement of Cash Flows .....	4-5
Notes to Basic Financial Statements.....	6-14
<b>Supplemental Information</b>	
Combining Schedule of Net Assets .....	15
Combining Schedule of Revenue, Expenses and Changes in Net Assets .....	16
Financial Data Schedule (FDS) Electronic Submission Schedule .....	17-21
Schedule and Reconciliation of Actual ARRA Costs and Advances .....	22
Schedule and Reconciliation of Actual Capital Fund Programs Costs and Advances .....	23
Schedule of Expenditures of Federal Awards.....	24
<b>Single Audit Section</b>	
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit of Basic Financial Statements Performed in Accordance With Government Auditing Standards .....	25
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	26-27
Schedule of Findings and Questioned Costs.....	28-33

# MALCOLM JOHNSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 530848  
210 N. Highway 17-92  
DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Knox County Housing Authority  
Knoxville, Tennessee

HUD, Knoxville Field Office  
710 Locust Street, S. W.  
Knoxville, Tennessee 37902-2526

We have audited the basic financial statements of the Knox County Housing Authority ("the Authority") as of and for the year ended March 31, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

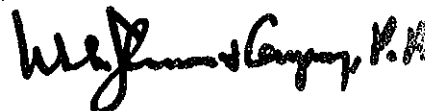
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of March 31, 2010, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The prior year's net assets were restated to make corrections to Capital Assets and related items as described in Note Q.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as detailed in this Report, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries made of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority. The Financial Data Schedule required by the U.S. Department of Housing and Urban Development, the Schedule of Expenditures of Federal Awards and the other supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Malcolm Johnson & Company, P.A.  
Certified Public Accountants

DeBary, Florida  
September 29, 2010

---

## **KNOX COUNTY HOUSING AUTHORITY**

**Knoxville, Tennessee**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**MARCH 31, 2010**

#### **Management's Discussion and Analysis**

The management of the Knox County Housing Authority offers the readers of the financial statements this narrative overview and analysis of the Authority's financial activities for the year ended March 31, 2010. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual fund issues or concerns. Readers should consider the information presented here in conjunction with the Authority's financial statements to obtain a full understanding of its financial position.

This management discussion and analysis is presented in accordance with the requirements of the generally accepted accounting principles accepted in the United States. We have made every effort to provide prior year data that allows the reader to gain an adequate understanding of the Authority's annual operating results and financial position as of March 31, 2010.

Questions concerning the information provided in this discussion or requests for additional information should be addressed to the Authority's Executive Director.

#### **Financial Highlights**

- The Authority's cash and investments balance as of March 31, 2010 was \$801,021 representing an increase of \$709,820 from March 31, 2009.
- The Authority had total revenues of \$4,167,077 and total operating expenses of \$3,738,524 for the year ended March 31, 2010.

#### **Overview of the Financial Reports**

The following outline describes the integral parts of this financial presentation and is a guideline for understanding its components:

- I. MD&A  
Serves as an introduction to the Authority's basic financial statements
- II. Basic Financial Statements  
Authority-wide financial statements  
Fund financial statements  
Notes to the financial statements
- III. Other Required Supplementary Information

The financial statements in this report are those of a special purpose government entity engaged in a business type activity. The following statements are included:

# KNOX COUNTY HOUSING AUTHORITY

Knoxville, Tennessee

## MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2010

### Overview of the Financial Reports (Continued)

- **Statement of Net Assets (Balance Sheet)** – presents information about the Authority's assets and liabilities and is similar to a balance sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equal "Net Assets," formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as "current" (convertible to cash within one year), and "non-current." Increases or decreases in net assets will serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- **Statement of Revenues, Expenses and Changes in Net Assets** – reports the authority's revenues by source and type and its expenses by category to substantiate the change in net assets for the fiscal year.
- **Statement of Cash Flows** – discloses net cash provided by, or used for operating activities, non-capital financing activities, and capital and related financing activities.

Our analysis of the Authority as a whole follows with the most important question, "Has the Authority's financial health improved or worsened as a result of the year's activities?" The following analysis of entity-wide net assets, revenues, and expenses is provided to assist with answering the above question. This analysis includes all assets and liabilities using the accrual method of accounting, which recognizes revenue when earned and expenses when incurred regardless of when cash is received or paid.

### Analysis of Authority-wide net Assets (Statement of Net Assets):

	Per Financial Data Schedule		
	2009	2010	Change
<b>ASSETS</b>			
Cash and Investments	\$ 91,201	\$ 801,021	\$ 709,820
Other Current Assets	76,818	267,412	190,594
Capital Assets	<u>2,262,096</u>	<u>2,116,355</u>	<u>( 145,741)</u>
<b>Total Assets</b>	<b><u>2,430,115</u></b>	<b><u>3,184,788</u></b>	<b><u>754,673</u></b>
<b>LIABILITIES</b>			
Current Liabilities	444,026	796,843	352,817
Noncurrent Liabilities	<u>36,696</u>	<u>-</u>	<u>( 36,696)</u>
<b>Total Liabilities</b>	<b><u>480,722</u></b>	<b><u>796,843</u></b>	<b><u>316,121</u></b>
<b>NET ASSETS</b>			
Invested in Capital Assets	2,262,096	2,116,355	( 145,741)
Restricted Net Assets	10,102	39,123	29,021
Unrestricted Assets	<u>( 322,805)</u>	<u>232,467</u>	<u>555,272</u>
<b>Total Net Assets</b>	<b><u>1,949,393</u></b>	<b><u>2,387,945</u></b>	<b><u>438,552</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 2,430,115</u></b>	<b><u>\$ 3,184,788</u></b>	<b><u>\$ 754,673</u></b>

# KNOX COUNTY HOUSING AUTHORITY

Knoxville, Tennessee

## MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2010

Cash and Investments increased to \$801,021 which represents \$709,820 increase from last year. This increase is due to several factors. HUD approved use of Capital funds for operational costs in the amount of \$271,078. KCHA received \$177,000 in additional funding for HAP. KCHA cut salaries and benefit expenses in both Public Housing and Voucher Programs. Management of both programs was handled by KCDC for most of audit year. From November 2009 to present, KCDC handled all payments and payroll for KCHA. This helped eliminate staff positions and costs. KCHA has an "intercompany" transaction for \$618,759 with KCDC. Capital Assets decreased to \$2,116,335, a decrease of \$145,761 which was the result of capital asset sales and depreciation. Other current assets increased \$190,594 due mostly to an A/R from HUD Capital Fund Program.

Total current Liabilities increased \$352,817 due mainly a payable to KCDC of \$593,758, decrease in vendor payables of \$210,309, decrease in wages/taxes payable of \$12,362.

Net assets increased by \$438,552, which is outlined in detail on the Statement of Revenues, Expenses and Changes in Net Assets.

### Analysis of Entity-Wide Revenue and Expenses (Statement of Activities)

The federal government continued its historic under-funding of operating subsidy. With no signs of improvement in federal funding or economic conditions in the foreseeable future, the Authority was to be merged with KCDC in 2009. HUD Final approval for this merger has been enacted as 04/01/2010.

The following table illustrates changes in revenue from FY 2009 to FY 2010.

	Per Financial Data Schedule		
	2009	2010	Change
<b>REVENUE</b>			
Tenant Revenue	\$ 349,510	\$ 291,366	\$( 58,144)
HUD Operating Grants	2,897,767	3,734,631	836,864
HUD Capital Grants	353,738	278,881	( 74,857)
Investment Income	1,356	6	( 1,350)
Other Revenue	10,769	( 137,807)	( 148,576)
<b>Total Revenue</b>	<b><u>\$ 3,613,140</u></b>	<b><u>\$ 4,167,077</u></b>	<b><u>\$ 553,937</u></b>

Total Revenue increased \$553,937 which is primarily the result of an increase in the HUD Operating Subsidy and HAP of \$502,482 and a decrease in HUD Operating Capital Grants of 9,356.

The decrease in Other Revenue of \$148,576 was due to a loss of \$278,291 in 2010 for disposition of fixed assets.

# KNOX COUNTY HOUSING AUTHORITY

Knoxville, Tennessee

## MANAGEMENT'S DISCUSSION AND ANALYSIS MARCH 31, 2010

The following table illustrates changes in expenses from FY 2009 to FY 2010.

	Per Financial Data Schedule		
	2009	2010	Change
<b>EXPENSES</b>			
Administrative	\$ 787,719	\$ 505,537	\$ ( 282,182)
Tenant Services	2,322	-	( 2,322)
Utilities	370,054	286,220	( 83,834)
Ordinary Maintenance	420,039	264,990	( 155,049)
General Expenses	<u>244,262</u>	<u>100,301</u>	<u>( 143,961)</u>
<b>Total Operating Expenses</b>	<b><u>1,824,396</u></b>	<b><u>1,157,048</u></b>	<b><u>( 667,348)</u></b>
Extraordinary Maintenance/Cas Loss	25,010	1,600	( 23,410)
Housing assistance payments	2,343,172	2,433,545	90,373
Depreciation Expense	<u>136,790</u>	<u>146,331</u>	<u>9,541</u>
<b>Total Non-Operating Expenses</b>	<b><u>2,504,972</u></b>	<b><u>2,581,476</u></b>	<b><u>76,504</u></b>
<b>Total Expenses</b>	<b><u>\$4,329,368</u></b>	<b><u>\$ 3,738,524</u></b>	<b><u>\$ ( 590,844)</u></b>

The Administration decrease of \$282,182 was primarily due to salary/ benefits decreases and more efficient management by KCDC. Utilities were down \$83,834, Maintenance expenses were decreased by \$155,049 due to more efficient methods of KCDC. HAP expenses were up \$90,373 due to increased costs in leasing to maximum amounts. General expenses were decreased due to a bad debt write-off of \$166,602 for the Section 8 Voucher Program in 2009. KCHA had very little extraordinary expenses in 2010 resulting in a decrease of \$23,410.

	2009	2010	Change
Land	\$ 705,960	\$ 419,692	\$ ( 286,268)
Buildings	8,267,825	8,474,615	206,790
Equipment	367,847	119,696	( 248,151)
Construction in Progress	554,251	629,082	74,831
Accumulated Depreciation	<u>(7,633,787)</u>	<u>(7,526,730)</u>	<u>107,057</u>
<b>Net Fixed Assets</b>	<b><u>\$ 2,262,096</u></b>	<b><u>\$ 2,116,355</u></b>	<b><u>\$ ( 145,741)</u></b>

Fixed Assets decreased during the year to \$2,116,355, a net decrease of \$145,741, which was primarily due to normal depreciation expense for the year, construction in progress increase of \$74,831 and decrease in land that KCHA was required to return to County of Knox due to obligatory agreements.

### Debt Outstanding

All debt has been forgiven by HUD in prior years and written off the books.

---

**KNOX COUNTY HOUSING AUTHORITY**

**Knoxville, Tennessee**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**MARCH 31, 2010**

**Legal**

The Inspector General filed suit against a prior employee and the employee was found guilty of twelve claims made. Sentencing is expected to be made in September 2010. Insurance companies have been notified for possible reimbursement claims.

**Financial Contact**

Questions concerning any of the information provided in this Management Discussion & Analysis should be addressed to:

William G. Pierce, Executive Director  
Knox County Housing Authority  
6333 Pleasant Ridge Road  
Knoxville, TN

**Knox County Housing Authority Board Roster**

1. Henrietta A. Grant, Chair  
1350 Orleans Drive  
Knoxville, TN 37919  
865-450-5145
2. Joseph Guess, II Vice Chair  
12201 Aronimink Point  
Knoxville, TN 37934  
865-546-6700
3. Jerry Julian  
6912 Bonnie Kate Road  
Knoxville, TN 37920  
865-573-1388
4. Dwight Vandevate  
147 Country Run Circle  
Powell, TN 37849  
865-215-4750
5. unfilled



**KNOX COUNTY HOUSING AUTHORITY****Knoxville, Tennessee****STATEMENT OF NET ASSETS****MARCH 31, 2010****ASSETS****Current assets**

Cash and cash equivalents, unrestricted	\$ 692,289
Cash and cash equivalents, restricted	108,732
Accounts receivable, net of allowance	13,248
Due from other governments	233,476
Prepaid insurance	20,688
<b>Total current assets</b>	<b><u>1,068,433</u></b>

**Noncurrent assets****Capital assets**

Not being depreciated	1,048,774
Depreciable, net	1,067,581
<b>Total capital assets, net</b>	<b><u>2,116,355</u></b>

**Total assets****3,184,788****LIABILITIES****Current liabilities**

Vendors and contractors payable	7,515
Accrued retirement benefit payable	144,180
Accrued compensated absences	19,281
Due to KCDC	618,759
Deferred revenues	7,108
<b>Total current liabilities</b>	<b><u>796,843</u></b>

**Total liabilities****796,843****NET ASSETS**

Invested in capital assets - net of related debt	2,116,355
Restricted	108,732
Unrestricted	162,858
<b>Total net assets</b>	<b><u>\$ 2,387,945</u></b>

The accompanying notes are an integral part of these basic financial statements.

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

<b>Operating revenues</b>	
Rental revenue	\$ 265,058
Governmental grants - HUD	3,734,631
Other revenue	159,514
<b>Total operating revenues</b>	<b>4,159,203</b>
<b>Operating expenses</b>	
Administrative	505,537
Utilities	286,220
Ordinary maintenance & operation	264,990
Insurance	48,078
General expenses	52,223
Housing assistance payments	2,433,545
Depreciation	146,331
<b>Total operating expenses</b>	<b>3,736,924</b>
<b>Operating income</b>	<b>422,279</b>
<b>Nonoperating revenues (expenses)</b>	
Interest revenue, unrestricted	6
Fraud recovery	9,915
Other revenue/(expense)	(1,600)
Gain/(loss) on disposition of capital assets	(280,928)
<b>Total nonoperating exepnses</b>	<b>(272,607)</b>
<b>Income before contributions</b>	<b>149,672</b>
<b>Capital contributions</b>	<b>278,881</b>
<b>Increase in net assets</b>	<b>428,553</b>
<b>Net assets, beginning of year, restated</b>	<b>1,959,392</b>
<b>Net assets, end of year</b>	<b>\$ 2,387,945</b>

The accompanying notes are an integral part of these basic financial statements.

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**Cash Flows From Operating Activities**

Receipts from dwelling rentals	\$ 260,285
Governmental receipts	3,501,155
Other receipts	159,284
Payments to employees and suppliers	(783,042)
Payments to landlords and residents	(2,433,545)
	<u>704,137</u>

**Net cash provided by operating activities**

**Cash Flows From Capital and Related Financing Activities**

Capital contributions	278,881
Purchases of capital assets	(590)
Proceeds from disposals of capital assets	(272,614)
	<u>5,677</u>

**Net cash provided by capital and related financing activities**

**Cash Flows From Investing Activities**

Interest	<u>6</u>
	<u>6</u>

**Net cash provided by investing activities**

**Net increase in cash and cash equivalents**

**709,820**

**Balance - beginning of the year**

**91,201**

**Balance - end of the year**

**\$ 801,021**

**Reconciliation of Cash Flows to Statement of Net Assets**

Cash and cash equivalents, unrestricted	\$ 692,289
Cash and cash equivalents, restricted	108,732
	<u>\$ 801,021</u>

There are no non-cash transactions.

**KNOX COUNTY HOUSING AUTHORITY**

**Knoxville, Tennessee**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2010  
(Continued)**

**Reconciliation of Net Operating Loss to  
Net Cash Used By Operating Activities**

<b>Operating income/(loss)</b>	<b>\$ 422,279</b>
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation elimination	146,331
Increase in accounts receivable	23,873
Increase in due from other governments	(233,476)
Decrease in inventory	1,623
Decrease in prepaid expenses	17,386
Decrease in security deposits	(28,646)
Decrease in accounts payable	(227,794)
Increase in accrued wages	131,818
Decrease in compensated absences	(27,765)
Decrease in accrued liabilities	(150,021)
Increase in due from other governments	618,759
Decrease in deferred credits	(230)
Prior year restatement	10,000
<b>Net cash used by operating activities</b>	<b><u>\$ 704,137</u></b>

The accompanying notes are an integral part of these basic financial statements.

## KNOX COUNTY HOUSING AUTHORITY

Knoxville, Tennessee

### NOTES TO BASIC FINANCIAL STATEMENTS

MARCH 31, 2010

#### A - Summary of Significant Accounting Policies and Organization:

1. **Organization:** Knox County Housing Authority ("the Authority") is a public body corporate and politic pursuant to the Laws of the State of Tennessee which was organized to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other Federal Agencies.
2. **Reporting Entity:** In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the *Codification of Governmental Accounting and Financial Reporting Standards and Statement No. 14, (amended) of the Governmental Accounting Standards Board: The Financial Reporting Entity*. These criteria include manifestation of oversight responsibility including financial accountability, appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal dependency, potential for dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable. Based upon the application of these criteria, the reporting entity has one blended component unit, the Homeplace Apartments L.P. (HALP).

In addition to the blended component unit, the basic financial statements of the Knox County Housing Authority consist primarily of Low Rent Public Housing and Capital fund Program and Section 8 Housing Assistance Programs under annual contributions contracts with HUD.

3. **Summary of HUD and Other Authority Programs:** The accompanying basic financial statements consist of the activities of the housing programs subsidized by HUD. A summary of each of these programs and the related contracts with HUD is provided below.
  - a. **Low Rent Public Housing:** This type of housing consists of apartments and single-family dwellings owned and operated by the Authority. Funding is provided by tenant rent payments and subsidies provided by HUD.
  - b. **Modernization and Development:** Substantially all additions to land, buildings, and equipment are accomplished through the Capital Fund Program. These programs add to, replace or materially upgrade deteriorated portions of the Authority's housing units. Funding is provided through programs established by HUD.
  - c. **Housing Choice Vouchers:** This is a housing program wherein low rent tenants lease housing units directly from private landlords rather than through the Authority. The Authority contracts with private landlords to make assistance payments for the difference between the approved contract rent and the actual rent paid by the low rent tenants.
  - d. **Component Unit:** Homeplace Apartments, LP (HALP) is a limited partnership in which the Authority is the general partner and the Executive director of the Authority is its only limited partner. The purpose of the partnership is to engage in the business of owning, developing and operating a low income housing tax credit apartment project in Knoxville, Tennessee. The development plans of HALP did not come to fruition. The project has been abandoned, the land has been returned to Knox County, and the Partnership is in process of dissolution.

**KNOX COUNTY HOUSING AUTHORITY**

**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**MARCH 31, 2010**

**(Continued)**

**A - Summary of Significant Accounting Policies and Organization: (Continued)**

4. **Basis of Presentation and Accounting:** In accordance with uniform financial reporting standards, for HUD housing programs, the basic financial statements are prepared in accordance with U.S. generally accepted accounting principles, (GAAP)

Based upon compelling reasons offered by HUD, the Authority reports its basic financial statements as a special purpose government engaged solely in business-type activities, which is similar to the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Pursuant to the election option made available by *GASB Statement No. 20, Pronouncements of the Financial Accounting Standards Board (FASB)* pronouncements issued after November 30, 1989 are applied in the preparation of the basic financial statements, unless those pronouncements conflict with or contradict GASB pronouncements.

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

**Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

**Restricted** - Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or the expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

**Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Authority Board or may otherwise be limited by contractual agreements with outside parties.

5. **Budgets:** Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a "project length" basis. Budgets are not, however, legally adopted nor legally required for basic financial statement presentation.
6. **Cash and Cash Equivalents:** For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. There were no noncash investing, capital and financing activities during the year.
7. **Interprogram Receivables and Payables:** Interprogram receivables/payables, when present, are all current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically, and all interprogram balances net zero. Offsetting due to/due from balances are eliminated for the basic financial statement presentation.

**KNOX COUNTY HOUSING AUTHORITY**

**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**MARCH 31, 2010**

**(Continued)**

**A - Summary of Significant Accounting Policies and Organization: (Continued)**

- 8. Investments:** Investments, when present, are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD. Investments are either insured or collateralized using the dedicated method. Under the dedicated method of collateralization, all deposits and investments over the federal depository insurance coverage are collateralized with securities held by the Authority's agent in the Authority's name. It is the Authority's policy that all funds on deposit are collateralized in accordance with both HUD requirements and requirements of the State of Tennessee.
- 9. Inventories:** Inventories (consisting of materials and supplies) are valued at cost using the first in, first out (FIFO) method. If inventory falls below cost due to damage, deterioration or obsolescence, the Authority establishes an allowance for obsolete inventory. In accordance with the consumption method, inventory is expensed when items are actually placed in service.
- 10. Prepaid Items:** Payments made to vendors for goods or services that will benefit periods beyond the fiscal year end are recorded as prepaid items.
- 11. Use of Estimates:** The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- 12. Fair Value of Financial Instruments:** The carrying amount of the Authority's financial instruments at March 31, 2010 including cash, investments, accounts receivable, and accounts payable closely approximates fair value.
- 13. Capital Assets:**
  - a. Book Value:** All purchased fixed assets are valued at cost when historical records are available. When no historical records are available, fixed assets are valued at estimated historical cost.

Land values were derived from development closeout documentation.

Donated fixed assets are recorded at their fair value at the time they are received.

Donor imposed restrictions are deemed to expire as the asset depreciates.

All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.
  - b. Depreciation:** The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method.

---

KNOX COUNTY HOUSING AUTHORITY

Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

13. Capital Assets: (Continued)

Depreciation commences on modernization and development additions in the year following completion.

The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	5-30 years
Equipment	2-10 years

- c. **Maintenance and Repairs Expenditures:** Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$300 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

14. **Compensated Absences:** Compensated absences are those absences for which employees will be paid, such as vacation and sick leave computed in accordance with *GASB Statement No. 16*. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Authority and its employees are accounted for in the period in which such services are rendered or in which such events take place.

15. **Litigation Losses:** The Authority recognizes estimated losses related to litigation in the period in which the occasion giving rise to the loss occurred, the loss is probable and the loss is reasonably estimable.

16. **Annual Contribution Contracts:** Annual Contribution contracts provide that HUD shall have the authority to audit and examine the records of public housing authorities. Accordingly, final determination of the Authority's financing and contribution status for the Annual Contribution Contracts is the responsibility of HUD based upon financial reports submitted by the Authority.

17. **Insurance:** The primary technique used for risk financing is the purchase of insurance policies from commercial insurers that include a large deductible amount. The use of a large deductible clause reduces the cost of insurance, but, should losses occur, the portion of the uninsured loss is not expected to be significant with respect to the financial position of the Authority. The Authority secures required insurance coverage through the competitive bid process. As of the date of the fieldwork, the Authority had all policies required by HUD in force.

18. **Use of Restricted Assets:** It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.



# KNOX COUNTY HOUSING AUTHORITY

Knoxville, Tennessee

## NOTES TO BASIC FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### A - Summary of Significant Accounting Policies and Organization: (Continued)

**19. Operating Revenues and Expenses:** The principal operating revenues of the Authority's enterprise fund are charges to customers for rents and services. Operating expenses for the Authority's enterprise fund include the cost of providing housing and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**B - Deposits and Investments:** For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. There were no noncash investing, capital and financing activities during the year.

#### 1. HUD Deposit and Investment Restrictions

HUD requires authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured instruments.

HUD also requires that deposits of HUD program funds be fully insured or collateralized at all times. Acceptable security includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

#### 2. Risk Disclosures

**Custodial Credit Risk:** This is the risk that in the event of the failure of the counterparty, the Authority Authority will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All of the Authority's investments in securities are held in the name of the Authority. The Authority's custodial agreement policy prohibits counterparties holding securities not in the Authority's name.

The carrying amounts of the Authority's cash deposits were \$ 801,021 at March 31, 2010. Bank balances before reconciling items were \$ 810,730. These balances were either insured or covered by the State of Tennessee Collateralization Pool.

#### 3. Cash Restrictions

Housing Assistance Payments

**\$ 39,123**

**KNOX COUNTY HOUSING AUTHORITY**

Knoxville, Tennessee

**NOTES TO BASIC FINANCIAL STATEMENTS**

**MARCH 31, 2010**

(Continued)

**C. Accounts Receivable:**

Residents (net of allowance for doubtful accounts of \$45,865)	\$ 9,377
Fraud recovery (net of allowance for doubtful accounts of (\$472))	<u>3,871</u>
	<b><u>\$ 13,248</u></b>

**D - Due From Other Governments:**

U. S. Department of Housing and Urban Development (HUD)	\$ 227,747
Other Public Housing Authorities	<u>5,729</u>
	<b><u>\$ 233,476</u></b>

**E - Land, Buildings and Equipment:**

	Balance March 31 2009	Additions	Deletions	Transfers	Balance March 31 2010
<b>Not being depreciated:</b>					
Land	\$ 705,960	\$ -	\$ (286,268)	\$ -	\$ 419,692
Construction in progress	<u>554,251</u>	<u>278,881</u>	<u>10,000</u>	<u>(214,050)</u>	<u>629,082</u>
<b>Total not being depreciated</b>	<b><u>1,260,211</u></b>	<b><u>278,881</u></b>	<b><u>(276,268)</u></b>	<b><u>(214,050)</u></b>	<b><u>1,048,774</u></b>
<b>Depreciable:</b>					
Buildings & improvements	8,267,825	-	(7,260)	214,050	8,474,615
Accumulated depreciation	<u>(7,299,013)</u>	<u>(138,096)</u>	<u>5,386</u>	<u>-</u>	<u>(7,431,723)</u>
<b>Net buildings &amp; improvements</b>	<b><u>968,812</u></b>	<b><u>(138,096)</u></b>	<b><u>(1,874)</u></b>	<b><u>214,050</u></b>	<b><u>1,042,892</u></b>
Equipment	367,847	-	(248,151)	-	119,696
Accumulated depreciation	<u>(334,774)</u>	<u>(8,235)</u>	<u>248,002</u>	<u>-</u>	<u>(95,007)</u>
<b>Net equipment</b>	<b><u>33,073</u></b>	<b><u>(8,235)</u></b>	<b><u>(149)</u></b>	<b><u>-</u></b>	<b><u>24,689</u></b>
<b>Net depreciable assets</b>	<b><u>1,001,885</u></b>	<b><u>(146,331)</u></b>	<b><u>(2,023)</u></b>	<b><u>214,050</u></b>	<b><u>1,067,581</u></b>
<b>TOTAL</b>	<b><u>\$ 2,262,096</u></b>	<b><u>\$ 132,550</u></b>	<b><u>\$(278,291)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,116,355</u></b>

**F - Compensated Absences Payable:** The cost of current leave privileges computed in accordance with *GASB Statement No. 16, "Compensated Absences"*, is recognized as a current year expenditure in the period in which it is earned, in accordance with U.S. generally accepted accounting principles.

Current liabilities	\$ 19,281
Noncurrent liabilities	<u>-</u>
	<b><u>\$ 19,281</u></b>

# KNOX COUNTY HOUSING AUTHORITY

Knoxville, Tennessee

## NOTES TO BASIC FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### G - Schedule of Changes in Long Term Liabilities:

	March 31, 2009		Year Ended March 31, 2010		March 31, 2010	
	Long-term Portion	Current Portion	Additions	Payments	Current Portion	Long-term Portion
Accrued compensated absences	\$ 36,696	\$ 10,350	\$ 16,571	\$ (44,336)	\$ 19,281	\$ -

**H - Accrued Retirement Benefits Payable:** This represents benefits discovered to have been unpaid in prior years in the amount of \$144,180. This benefit plan has been terminated, and KCDC will determine the proper disposition of this liability, all of which is considered current for financial reporting purposes.

### I - Annual Contributions by Federal Agencies:

**Low Rent Public Housing:** Pursuant to the Annual Contributions Contract, HUD contributes an operating subsidy approved under the Annual Contributions Contract. HUD operating subsidy contributions for the year ended March 31, 2010 were \$600,510. HUD also contributed additional funds for modernization and operations in the amount of \$659,460

**Housing Choice Voucher Program:** Section 8 Programs provide for housing assistance payments to private owners of residential units on behalf of eligible low or very low income families. The program provides for such payments with respect to existing and moderately rehabilitated housing covering the difference between the maximum rental on a dwelling unit, and the amount of rent contribution by a participating family and related administrative expense. HUD contributions for Housing Choice Vouchers for year ended March 31, 2010 were \$2,753,542.

**J - Defined Contribution Pension Plan:** Until September 1, 2009, the authority was a member of a defined contribution plan with the Principal Financial Group. The Plan was established under section 401 of the IRS Code. The Authority was to make monthly contributions of 13% of each eligible employee's base compensation, and employees were allowed to make voluntary contributions. Full vesting would occur after five years of participation. The Authority's contribution requirement for the period April 1, 2009 through August 31, 2009 was \$21,981 based upon base wages of \$169,183.

As of August 31, 2009, all employees of the Authority were terminated by KCHA, and on September 1, 2010 most of these employees were hired by KHCA's successor, Knoxville's Community Development Corporation. As of September 1, 2009, the Plan was also discontinued.

Unpaid pension benefits as of March 31, 2009 amounted to \$122,199. Additional unpaid pension benefits of \$21,981 for the period April 1, 2009 through August 31, 2009 brings the total unpaid liability to \$144,180 as of March 31, 2010. Knoxville's Community Development Corporation, the new owner of the Project, is in process of determining the correct manner in which to effect payment of this liability. Payment is anticipated by KCDC within KCDC's fiscal year ending June 20, 2011.

**KNOX COUNTY HOUSING AUTHORITY**

**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**MARCH 31, 2010**

**(Continued)**

**J - Defined Contribution Pension Plan: (Continued)**

**Other Post Employment Benefits (OPEB):** In relation to its employee benefit programs, the Authority does not provide any Other Post Employment Benefits, as outlined under GASB 45.

**K - Economic Dependency:** The Authority receives approximately 96% of its revenues from HUD. If the amount of revenues received from HUD falls below critical levels, the Authority's reserves could be adversely affected.

**L - Conduit Type Debt:** Debt related to the original acquisition and early modernization of the public housing developments is funded, guaranteed and serviced by HUD. There is no debt or pledge of faith and credit on part of the Authority. Accordingly, this debt has not been recorded in the basic financial statements of the Authority. Additionally, HUD no longer provides debt service information to the Authority.

**M - Leasing Activities (as Lessor):** The Authority is the lessor of dwelling units mainly to low-income residents. The rents under the leases are determined generally by the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. The Authority may cancel the lease only for cause.

Revenues associated with these leases are recorded in the financial statements and schedules as "Rental Revenue". Rental Revenue per dwelling unit generally remains consistent from year to year, but is affected by general economic conditions which impact personal income and local job availability.

**N - Interprogram Transfers:** The Authority will make cash transfers between its various programs as outlined in the Federal Regulations and authorized and approved by the Authority's Board of Commissioners. During the current year, the Authority made transfers which were not authorized by HUD.

**O - Subsequent Events:** The Knox County Housing Authority merged with Knoxville's Community Development Corporation (KCDC) effective April 1, 2010.

**P - Going Concern Issue:** KCHA will be dissolved as a PHA, and all assets, liabilities and equity, as of April 1, 2010, will be owned entirely by Knoxville Community Development Corporation. There will be no continuing operations of KCHA after March 31, 2010 other than legal and administrative processes necessary to effect the dissolution of KCHA.

**KNOX COUNTY HOUSING AUTHORITY**  
Knoxville, Tennessee

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**  
**(Continued)**

**Q - Schedule of Changes in Net Assets:**

	Invested in Capital Assets - Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets	Total
<b>Balance - beginning of year</b>	<b>\$ 2,262,096</b>	<b>\$ 10,102</b>	<b>\$ (322,805)</b>	<b>\$ 1,949,393</b>
Adjustments to restate beginning balance	-	-	10,000	10,000
<b>Balance - beginning of year, restated</b>	<b>2,262,096</b>	<b>10,102</b>	<b>(312,805)</b>	<b>1,959,393</b>
Increase in unrestricted net assets	-	-	545,272	545,272
Increase in restricted net assets	-	29,021	-	29,021
Decrease in investment in capital assets	(145,741)	-	-	(145,741)
<b>Balance - end of year</b>	<b>\$ 2,116,355</b>	<b>\$ 39,123</b>	<b>\$ 232,467</b>	<b>\$ 2,387,945</b>
<b>Adjustments to restate beginning balance</b>				
Reclassification of soft costs to hard costs	\$ -	\$ -	\$ 10,000	\$ 10,000
<b>Net adjustments to restate beginning balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>

This restatement, although immaterial both qualitatively and quantitatively, has been made in this manner in accordance with HUD's line definition guide for financial reporting.

---

## **SUPPLEMENTAL INFORMATION**

**KNOX COUNTY HOUSING AUTHORITY**

**Knoxville, Tennessee**

**COMBINING SCHEDULE OF NET ASSETS**

**MARCH 31, 2010**

	<b>Public Housing Projects</b>	<b>Housing Choice Vouchers</b>	<b>Homeplace LP Component Unit</b>	<b>ARRA</b>	<b>Total</b>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents, unrestricted	\$ 541,018	\$ 151,271	\$ -	\$ -	\$ 692,289
Cash and cash equivalents, restricted	-	108,732	-	-	108,732
Accounts receivable, net of allowance	9,377	3,871	-	-	13,248
Due from other governments	-	5,729	-	227,747	233,476
Prepaid insurance	14,482	6,206	-	-	20,688
<b>Total current assets</b>	<b>564,877</b>	<b>275,809</b>	<b>-</b>	<b>227,747</b>	<b>1,068,433</b>
<b>Noncurrent assets</b>					
<b>Capital assets</b>					
Not being depreciated	1,048,774	-	-	-	1,048,774
Depreciable, net	1,067,581	-	-	-	1,067,581
<b>Total capital assets, net</b>	<b>2,116,355</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,116,355</b>
<b>Total assets</b>	<b>2,681,232</b>	<b>275,809</b>	<b>-</b>	<b>227,747</b>	<b>3,184,788</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Vendors and contractors payable	7,515	-	-	-	7,515
Accrued retirement benefit payable	109,801	34,379	-	-	144,180
Accrued compensated absences	15,957	3,324	-	-	19,281
Due to KCDC	293,463	97,549	-	227,747	618,759
Deferred revenues	2,105	5,003	-	-	7,108
<b>Total current liabilities</b>	<b>428,841</b>	<b>140,255</b>	<b>-</b>	<b>227,747</b>	<b>796,843</b>
<b>Total liabilities</b>	<b>428,841</b>	<b>140,255</b>	<b>-</b>	<b>227,747</b>	<b>796,843</b>
<b>NET ASSETS</b>					
Invested in capital assets - net of related debt	2,116,355	-	-	-	2,116,355
Restricted	-	108,732	-	-	108,732
Unrestricted	136,036	26,822	-	-	162,858
<b>Total net assets</b>	<b>\$ 2,252,391</b>	<b>\$ 135,554</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,387,945</b>

**KNOX COUNTY HOUSING AUTHORITY**

Knoxville, Tennessee

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED MARCH 31, 2010**

	<b>Public Housing Projects</b>	<b>Housing Choice Vouchers</b>	<b>Homeplace LP Component Unit</b>	<b>ARRA</b>	<b>Total</b>
<b>Operating revenues</b>					
Rental revenue	\$ 265,058	\$ -	\$ -	\$ -	\$ 265,058
Governmental grants - HUD	981,089	2,753,542	-	-	3,734,631
Other revenue	79,653	74,704	5,157	-	159,514
<b>Total operating revenues</b>	<b>1,325,800</b>	<b>2,828,246</b>	<b>5,157</b>	<b>-</b>	<b>4,159,203</b>
<b>Operating expenses</b>					
Administrative	353,183	152,354	-	-	505,537
Utilities	286,220	-	-	-	286,220
Ordinary maintenance & operation	264,990	-	-	-	264,990
Insurance	46,377	1,701	-	-	48,078
General expenses	46,976	5,247	-	-	52,223
Housing assistance payments	-	2,433,545	-	-	2,433,545
Depreciation	146,331	-	-	-	146,331
<b>Total operating expenses</b>	<b>1,144,077</b>	<b>2,592,847</b>	<b>-</b>	<b>-</b>	<b>3,736,924</b>
<b>Operating income</b>	<b>181,723</b>	<b>235,399</b>	<b>5,157</b>	<b>-</b>	<b>422,279</b>
<b>Nonoperating revenues (expenses)</b>					
Interest revenue, unrestricted	2	4	-	-	6
Fraud recovery	4,751	5,164	-	-	9,915
Other revenue/(expense)	(1,600)	-	-	-	(1,600)
Gain/(loss) on disposition of capital asset	5,340	-	(286,268)	-	(280,928)
<b>Total nonoperating revenues (exepnses)</b>	<b>8,493</b>	<b>5,168</b>	<b>(286,268)</b>	<b>-</b>	<b>(272,607)</b>
<b>Income (loss) before contributions and transfers</b>	<b>190,216</b>	<b>240,567</b>	<b>(281,111)</b>	<b>-</b>	<b>149,672</b>
<b>Capital contributions</b>	<b>51,134</b>	<b>-</b>	<b>-</b>	<b>227,747</b>	<b>278,881</b>
<b>Transfers from (to) other programs</b>	<b>227,747</b>	<b>-</b>	<b>-</b>	<b>(227,747)</b>	<b>-</b>
<b>Transfers from (to) other entities</b>	<b>-</b>	<b>(64,278)</b>	<b>64,278</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net assets</b>	<b>469,097</b>	<b>176,289</b>	<b>(216,833)</b>	<b>-</b>	<b>428,553</b>
<b>Net assets, beginning of year, restated</b>	<b>1,783,294</b>	<b>(40,735)</b>	<b>216,833</b>	<b>-</b>	<b>1,959,392</b>
<b>Net assets, end of year</b>	<b>\$ 2,252,391</b>	<b>\$ 135,554</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,387,945</b>



**Knox County Housing Authority (TN111)**  
**KNOXVILLE, TN**

**Entity Wide Balance Sheet Summary**

Submission Type: Audited/A-133

Fiscal Year End: 03/31/2010

	Project Total	14,871 Housing Choice Vouchers	6 Component Units	14,885 Formula Capital Fund Stimulus Grant	Subtotal	Total
111 Cash - Unrestricted	\$541,018	\$151,271			\$692,289	\$692,289
112 Cash - Restricted - Modernization and Development						
113 Cash - Other Restricted		\$108,732			\$108,732	\$108,732
114 Cash - Tenant Security Deposits						
115 Cash - Restricted for Payment of Current Liabilities						
100 Total Cash	\$541,018	\$260,003	\$0	\$0	\$801,021	\$801,021
121 Accounts Receivable - PHA Projects						
122 Accounts Receivable - HUD Other Projects	\$0			\$227,747	\$227,747	\$227,747
124 Accounts Receivable - Other Government		\$5,729			\$5,729	\$5,729
125 Accounts Receivable - Miscellaneous						
126 Accounts Receivable - Tenants	\$55,242				\$55,242	\$55,242
126.1 Allowance for Doubtful Accounts - Tenants	-\$45,865				-\$45,865	-\$45,865
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0		\$0	\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current						
128 Fraud Recovery		\$4,343			\$4,343	\$4,343
128.1 Allowance for Doubtful Accounts - Fraud		-\$472			-\$472	-\$472
129 Accrued Interest Receivable						
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$9,377	\$9,600	\$0	\$227,747	\$246,724	\$246,724
131 Investments - Unrestricted						
132 Investments - Restricted						
135 Investments - Restricted for Payment of Current Liability						
142 Prepaid Expenses and Other Assets	\$14,482	\$6,206			\$20,688	\$20,688
143 Inventories						
143.1 Allowance for Obsolete Inventories						
144 Inter Program Due From						
145 Assets Held for Sale						
150 Total Current Assets	\$564,877	\$275,809	\$0	\$227,747	\$1,068,433	\$1,068,433
161 Land	\$419,692				\$419,692	\$419,692
162 Buildings	\$8,474,615				\$8,474,615	\$8,474,615
163 Furniture, Equipment & Machinery - Dwellings	\$34,455				\$34,455	\$34,455
164 Furniture, Equipment & Machinery - Administration	\$85,241				\$85,241	\$85,241
165 Leasehold Improvements						
166 Accumulated Depreciation	-\$7,526,730				-\$7,526,730	-\$7,526,730
167 Construction in Progress	\$629,082				\$629,082	\$629,082
168 Infrastructure						
160 Total Capital Assets, Net of Accumulated Depreciation	\$2,116,355	\$0	\$0	\$0	\$2,116,355	\$2,116,355
171 Notes, Loans and Mortgages Receivable - Non-Current						
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due						

173 Grants Receivable - Non Current						
174 Other Assets						
176 Investments in Joint Ventures						
180 Total Non-Current Assets	\$2,116,355	\$0	\$0	\$0	\$2,116,355	\$2,116,355
190 Total Assets	\$2,681,232	\$275,809	\$0	\$227,747	\$3,184,788	\$3,184,788
311 Bank Overdraft						
312 Accounts Payable <= 90 Days	\$7,515				\$7,515	\$7,515
313 Accounts Payable >90 Days Past Due						
321 Accrued Wage/Payroll Taxes Payable	\$109,801	\$34,379			\$144,180	\$144,180
322 Accrued Compensated Absences - Current Portion	\$15,957	\$3,324			\$19,281	\$19,281
324 Accrued Contingency Liability						
325 Accrued Interest Payable						
331 Accounts Payable - HUD PHA Programs						
332 Account Payable - PHA Projects						
333 Accounts Payable - Other Government	\$293,463	\$97,549		\$227,747	\$618,759	\$618,759
341 Tenant Security Deposits						
342 Deferred Revenues	\$2,105	\$5,003			\$7,108	\$7,108
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds						
344 Current Portion of Long-term Debt - Operating Borrowings						
345 Other Current Liabilities						
346 Accrued Liabilities - Other						
347 Inter Program - Due To						
348 Loan Liability - Current						
310 Total Current Liabilities	\$428,841	\$140,255	\$0	\$227,747	\$796,843	\$796,843
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue						
352 Long-term Debt, Net of Current - Operating Borrowings						
353 Non-current Liabilities - Other						
354 Accrued Compensated Absences - Non Current						
355 Loan Liability - Non Current						
356 FASB 5 Liabilities						
357 Accrued Pension and OPEB Liabilities						
350 Total Non-Current Liabilities	\$0	\$0	\$0	\$0	\$0	\$0
300 Total Liabilities	\$428,841	\$140,255	\$0	\$227,747	\$796,843	\$796,843
508.1 Invested In Capital Assets, Net of Related Debt	\$2,116,355				\$2,116,355	\$2,116,355
509.2 Fund Balance Reserved						
511.2 Unreserved, Designated Fund Balance						
511.1 Restricted Net Assets		\$108,732			\$108,732	\$108,732
512.1 Unrestricted Net Assets	\$136,036	\$26,822	\$0	\$0	\$162,858	\$162,858
512.2 Unreserved, Undesignated Fund Balance						
513 Total Equity/Net Assets	\$2,252,391	\$135,554	\$0	\$0	\$2,387,945	\$2,387,945
600 Total Liabilities and Equity/Net Assets	\$2,681,232	\$275,809	\$0	\$227,747	\$3,184,788	\$3,184,788

**Knox County Housing Authority (TN111)  
KNOXVILLE, TN**

**Entity Wide Revenue and Expense Summary**

Submission Type: Audited/A-  
133

Fiscal Year End: 03/31/2010

	Project Total	14,871 Housing Choice Vouchers	6 Component Units	14,885 Formula Capital Fund Stimulus Grant	Subtotal	Total
70300 Net Tenant Rental Revenue	\$265,058				\$265,058	\$265,058
70400 Tenant Revenue - Other	\$26,308				\$26,308	\$26,308
70500 Total Tenant Revenue	\$291,366	\$0	\$0	\$0	\$291,366	\$291,366
70600 HUD PHA Operating Grants	\$981,089	\$2,753,542			\$3,734,631	\$3,734,631
70610 Capital Grants	\$51,134			\$227,747	\$278,881	\$278,881
70710 Management Fee						
70720 Asset Management Fee						
70730 Book Keeping Fee						
70740 Front Line Service Fee						
70750 Other Fees						
70700 Total Fee Revenue						
70800 Other Government Grants						
71100 Investment Income - Unrestricted	\$2	\$4			\$6	\$6
71200 Mortgage Interest Income						
71300 Proceeds from Disposition of Assets Held for Sale						
71310 Cost of Sale of Assets						
71400 Fraud Recovery	\$4,751	\$5,164			\$9,915	\$9,915
71500 Other Revenue	\$53,345	\$74,704	\$5,157		\$133,206	\$133,206
71600 Gain or Loss on Sale of Capital Assets	\$5,340		-\$286,268		-\$280,928	-\$280,928
72000 Investment Income - Restricted						
70000 Total Revenue	\$1,387,027	\$2,833,414	-\$281,111	\$227,747	\$4,167,077	\$4,167,077
91100 Administrative Salaries	\$101,505	\$86,338			\$187,843	\$187,843
91200 Auditing Fees	\$20,425	\$5,155			\$25,580	\$25,580
91300 Management Fee						
91310 Book-keeping Fee						
91400 Advertising and Marketing						
91500 Employee Benefit contributions - Administrative	\$104,535	\$23,749			\$128,284	\$128,284
91600 Office Expenses	\$87,804	\$36,429			\$124,233	\$124,233
91700 Legal Expense	\$12,290	\$590			\$12,880	\$12,880
91800 Travel	\$1,736				\$1,736	\$1,736
91810 Allocated Overhead						
91900 Other	\$24,888	\$93			\$24,981	\$24,981
91000 Total Operating - Administrative	\$353,183	\$152,354	\$0	\$0	\$505,537	\$505,537
92000 Asset Management Fee						
92100 Tenant Services - Salaries						
92200 Relocation Costs						
92300 Employee Benefit Contributions - Tenant Services						
92400 Tenant Services - Other						
92500 Total Tenant Services	\$0	\$0	\$0	\$0	\$0	\$0

93100 Water	\$33,770				\$33,770	\$33,770
93200 Electricity	\$191,781				\$191,781	\$191,781
93300 Gas						
93400 Fuel						
93500 Labor						
93600 Sewer	\$60,669				\$60,669	\$60,669
93700 Employee Benefit Contributions - Utilities						
93800 Other Utilities Expense						
93000 Total Utilities	\$286,220	\$0	\$0	\$0	\$286,220	\$286,220
94100 Ordinary Maintenance and Operations - Labor	\$105,868				\$105,868	\$105,868
94200 Ordinary Maintenance and Operations - Materials and Other	\$40,675				\$40,675	\$40,675
94300 Ordinary Maintenance and Operations Contracts	\$76,820				\$76,820	\$76,820
94500 Employee Benefit Contributions - Ordinary Maintenance	\$41,627				\$41,627	\$41,627
94000 Total Maintenance	\$264,990	\$0	\$0	\$0	\$264,990	\$264,990
95100 Protective Services - Labor						
95200 Protective Services - Other Contract Costs						
95300 Protective Services - Other						
95500 Employee Benefit Contributions - Protective Services						
95000 Total Protective Services	\$0	\$0	\$0	\$0	\$0	\$0
96110 Property Insurance	\$31,908				\$31,908	\$31,908
96120 Liability Insurance	\$8,523				\$8,523	\$8,523
96130 Workmen's Compensation	\$3,814				\$3,814	\$3,814
96140 All Other Insurance	\$2,132	\$1,701			\$3,833	\$3,833
96100 Total Insurance Premiums	\$46,377	\$1,701	\$0	\$0	\$48,078	\$48,078
96200 Other General Expenses						
96210 Compensated Absences	\$11,324	\$5,247			\$16,571	\$16,571
96300 Payments in Lieu of Taxes						
96400 Bad debt - Tenant Rents	\$35,652				\$35,652	\$35,652
96500 Bad debt - Mortgages						
96600 Bad debt - Other						
96800 Severance Expense						
96000 Total Other General Expenses	\$46,976	\$5,247	\$0	\$0	\$52,223	\$52,223
96710 Interest of Mortgage (or Bonds) Payable						
96720 Interest on Notes Payable (Short and Long Term)						
96730 Amortization of Bond Issue Costs						
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$997,746	\$159,302	\$0	\$0	\$1,157,048	\$1,157,048
97000 Excess of Operating Revenue over Operating Expenses	\$389,281	\$2,674,112	-\$281,111	\$227,747	\$3,010,029	\$3,010,029
97100 Extraordinary Maintenance						
97200 Casualty Losses - Non-capitalized	\$1,600				\$1,600	\$1,600

97300 Housing Assistance Payments		\$2,363,936			\$2,363,936	\$2,363,936
97350 HAP Portability-In		\$69,609			\$69,609	\$69,609
97400 Depreciation Expense	\$146,331				\$146,331	\$146,331
97500 Fraud Losses						
97600 Capital Outlays - Governmental Funds						
97700 Debt Principal Payment - Governmental Funds						
97800 Dwelling Units Rent Expense						
90000 Total Expenses	\$1,145,677	\$2,592,847	\$0	\$0	\$3,738,524	\$3,738,524
10010 Operating Transfer In	\$380,579				\$380,579	\$380,579
10020 Operating transfer Out	-\$380,579				-\$380,579	-\$380,579
10030 Operating Transfers from/to Primary Government						
10040 Operating Transfers from/to Component Unit		-\$64,278	\$64,278		\$0	\$0
10050 Proceeds from Notes, Loans and Bonds						
10060 Proceeds from Property Sales						
10070 Extraordinary Items, Net Gain/Loss						
10080 Special Items (Net Gain/Loss)						
10091 Inter Project Excess Cash Transfer In						
10092 Inter Project Excess Cash Transfer Out						
10093 Transfers between Program and Project - In						
10094 Transfers between Project and Program - Out						
10100 Total Other financing Sources (Uses)	\$0	-\$64,278	\$64,278	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$241,350	\$176,289	-\$216,833	\$227,747	\$428,553	\$428,553
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0
11030 Beginning Equity	\$1,773,294	-\$40,735	\$216,833	\$0	\$1,949,392	\$1,949,392
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$237,747			-\$227,747	\$10,000	\$10,000
11050 Changes in Compensated Absence Balance						
11060 Changes in Contingent Liability Balance						
11070 Changes in Unrecognized Pension Transition Liability						
11080 Changes in Special Term/Severance Benefits Liability						
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents						
11100 Changes in Allowance for Doubtful Accounts - Other						
11170 Administrative Fee Equity		\$26,822			\$26,822	\$26,822
11180 Housing Assistance Payments Equity		\$108,732			\$108,732	\$108,732
11190 Unit Months Available	2352	6744			9096	9096
11210 Number of Unit Months Leased	1485	6027			7512	7512
11270 Excess Cash	\$38,409				\$38,409	\$38,409
11610 Land Purchases	\$0				\$0	\$0
11620 Building Purchases	\$0				\$0	\$0
11630 Furniture & Equipment - Dwelling Purchases	\$0				\$0	\$0
11640 Furniture & Equipment - Administrative Purchases	\$0				\$0	\$0
11650 Leasehold Improvements Purchases	\$278,881				\$278,881	\$278,881
11660 Infrastructure Purchases	\$0				\$0	\$0
13510 CFFP Debt Service Payments	\$0				\$0	\$0
13901 Replacement Housing Factor Funds	\$0				\$0	\$0

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**SCHEDULE AND RECONCILIATION OF ACTUAL  
ARRA COSTS AND ADVANCES  
MARCH 31, 2010**

<b>PROGRAM</b>	<b>ARRA</b>
<b>BUDGET</b>	<b>\$ 344,932</b>
<b>ADVANCES:</b>	
Cash receipts - prior years	\$ -
Cash receipts - current year	-
	<b>\$ -</b>
<b>COSTS:</b>	
Prior years	\$ -
Current year	227,747
	<b>\$ 227,747</b>
<b>Deficiency of advances due from HUD (net)</b>	<b>\$ (227,747)</b>
<b>Modernization Cost Certificate issued?</b>	<b>No</b>
<b>Soft costs</b>	
Prior years	\$ -
Current year	-
	<b>\$ -</b>
<b>Hard costs</b>	
Prior years	\$ -
Current year	227,747
	<b>\$ 227,747</b>
<b>Hard cost transfers to LRPH</b>	
Prior years	\$ -
Current year	(227,747)
	<b>\$ (227,747)</b>
<b>Hard costs remaining on ARRA</b>	<b>\$ -</b>

**KNOX COUNTY HOUSING AUTHORITY**  
Knoxville, Tennessee

**SCHEDULE AND RECONCILIATION OF ACTUAL  
CAPITAL FUND PROGRAMS COSTS AND ADVANCES  
MARCH 31, 2010**

<b>PROGRAM</b>	<b>501-06</b>	<b>502-06</b>	<b>501-07</b>	<b>501-08</b>	<b>501-09</b>	<b>Total</b>
<b>BUDGET</b>	<u>\$ 264,114</u>	<u>\$ 7,803</u>	<u>\$ 278,335</u>	<u>\$ 272,501</u>	<u>\$ 271,078</u>	<u>\$ 1,093,831</u>
<b>ADVANCES:</b>						
Cash receipts - prior years	\$ 264,114	\$ 7,803	\$ 276,146	\$ 114,055	\$ -	\$ 662,118
Cash receipts - current year	-	-	2,189	158,446	271,078	431,713
	<u>\$ 264,114</u>	<u>\$ 7,803</u>	<u>\$ 278,335</u>	<u>\$ 272,501</u>	<u>\$ 271,078</u>	<u>\$ 1,093,831</u>
<b>COSTS:</b>						
Prior years	\$ 264,114	\$ 7,803	\$ 276,146	\$ 114,055	\$ -	\$ 662,118
Current year	-	-	2,189	158,446	271,078	431,713
	<u>\$ 264,114</u>	<u>\$ 7,803</u>	<u>\$ 278,335</u>	<u>\$ 272,501</u>	<u>\$ 271,078</u>	<u>\$ 1,093,831</u>
<b>Deficiency of advances due from HUD (net)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Modernization Cost Certificate issued?</b>	<u>No</u>	<u>No</u>	<u>No</u>	<u>No</u>	<u>No</u>	
<b>Soft costs</b>						
Prior years	\$ 50,064	\$ 7,803	\$ 50,000	\$ -	\$ -	\$ 107,867
Prior year correction	-	-	(10,000)	-	-	(10,000)
Current year	-	-	-	109,501	271,078	380,579
	<u>\$ 50,064</u>	<u>\$ 7,803</u>	<u>\$ 40,000</u>	<u>\$ 109,501</u>	<u>\$ 271,078</u>	<u>\$ 478,446</u>
<b>Hard costs</b>						
Prior years	\$ 214,050	\$ -	\$ 226,146	\$ 114,055	\$ -	\$ 554,251
Prior year correction	-	-	10,000	-	-	10,000
Current year	-	-	2,189	48,945	-	51,134
	<u>\$ 214,050</u>	<u>\$ -</u>	<u>\$ 238,335</u>	<u>\$ 163,000</u>	<u>\$ -</u>	<u>\$ 615,385</u>
<b>Hard cost transfers to LRPH</b>						
Prior years	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current year	214,050	-	-	-	-	214,050
	<u>\$ 214,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,050</u>
<b>Hard costs remaining on CFP</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 238,335</u>	<u>\$ 163,000</u>	<u>\$ -</u>	<u>\$ 401,335</u>

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**Federal Grantor:**

<u>CFDA Number</u>	<u>Program Title</u>	<u>Pass Through Entity</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
14.850	Low Rent Public Housing	NA	\$ 600,510
14.871	Housing Choice Voucher Program	NA	2,753,542
	<b>Capital Fund Cluster</b>		
14.872	Capital Fund Program	NA	431,713
14.885	ARRA Stimulus Grant	NA	227,747
	<b>Total Capital Fund Cluster</b>		<u>659,460</u>
	<b>Total Federal Awards Expenditures</b>		<u><u>\$ 4,013,512</u></u>

**Notes to the Schedule of Expenditures of Federal Awards**

**A. Basis of Accounting**

This schedule is prepared on the accrual basis of accounting.

- B.** The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations".

**C. Reconciliation of Total Federal Awards Expenditures to Financial Data Schedule**

FDS line 706	HUD PHA Grants	\$ 3,734,631
FDS line 706.1	Capital Grants	278,881
		<u><u>\$ 4,013,512</u></u>



---

**SINGLE AUDIT SECTION**

# MALCOLM JOHNSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 530848  
210 N. Highway 17-92  
DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners  
Knox County Housing Authority  
Knoxville, Tennessee

HUD, Knoxville Field Office  
710 Locust Street, S. W.  
Knoxville, Tennessee 37902-2526

We have audited the basic financial statements of the Knox County Housing Authority ("the Authority") as of and for the year ended March 31, 2010, and have issued our report thereon dated September 29, 2010, which included a disclaimer of opinion on Management's Discussion and Analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying Schedule of Finding and Questioned Costs to be a significant deficiency in internal control over financial reporting. (see Finding 2010-3).

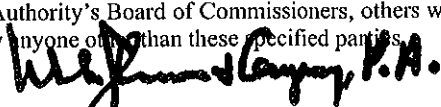
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, with regard to the significant deficiency described above, we do not consider item 2010-3 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Authority's management, the Authority's Board of Commissioners, others within the entity, and the U.S. Department of HUD and is not intended to be and should not be used by anyone other than these specified parties.

  
Malcolm Johnson & Company, P.A.  
Certified Public Accountants

DeBary, Florida  
September 29, 2010

**MALCOLM JOHNSON & COMPANY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS**

P.O. Box 530848  
210 N. Highway 17-92  
DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAMS AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Knox County Housing Authority  
Knoxville, Tennessee

HUD, Knoxville Field Office  
710 Locust Street, S. W.  
Knoxville, Tennessee 37902-2526

**Compliance**

We have audited the compliance of the Knox County Housing Authority ("the Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1, 2010-2 and 2010-4.

**Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1, 2010-2 and 2010-4. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, the U.S. Department of HUD, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Malcolm Johnson & Company, P.A.  
Certified Public Accountants

DeBary, Florida  
September 29, 2010

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Basic Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

~ Material weakness(es) identified? No

~ Significant deficiency(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to basic financial statements noted? No

**Federal Awards**

Internal control over major programs:

~ Material weakness(es) identified? No

~ Significant deficiency(s) identified that are not considered to be material weakness(es)? Yes

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

Identification of major programs:

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
14.850a	Low Rent Public Housing
14.872/885	Capital Fund Cluster
14.871	Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2010-3**            **Condition:**        **Deficiencies Noted in the Supporting Documentation for Cash Disbursements**

Supporting documentation for two out of forty cash disbursements were unavailable for audit examination.

**CFDA Number:**        14.850a

**Questioned Costs:**        None

**Criteria:**                24 CFR Regulations

**Cause:**                The Authority did not have the documentary controls in place to support its cash disbursements or allow for easy retrieval upon request.

**Effect:**                As stated in the condition.

**Reply:**                The insufficient documentation for two cash disbursements that were unavailable during audit examination was due to the lack of document retention and control that existed prior to Knoxville's Community Development Corporation's (KCDC) assumption of management agent duties for Knox County Housing Authority as of September 1, 2009. KCDC has procedures in place to retain and easily retrieve documentation to support cash disbursements. This procedure was established for Virginia Walker and Bakertown upon assumption of management agent duties.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2010-1**            **Condition:**        **Deficiencies Noted In the PHAS Submission to HUD**

The Authority was not able to provide sufficient documentation to support the figures reported on the Fiscal Year 2010 PHAS submission for the following indicators:

**Sub-Indicator 3: Work Orders**  
                 Total number of emergency work orders  
                 Total number of emergency work orders completed within 24 hours

**Sub-Indicator 5: Security**  
                 Total number of evictions as a result of the applicable criteria

**CFDA Number:**        14.850a

**Questioned Costs:**        None

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**  
**(Continued)**

<b>2010-1</b>	<b>Condition:</b>	<b>Deficiencies Noted In the PHAS Submission To HUD (Continued)</b>
	<b>Criteria:</b>	24 CFR 902 and standard internal control procedures
	<b>Cause/Effect:</b>	Lack of internal controls over filing and documentation retention.
	<b>Recommendation:</b>	We recommend that the Authority review the system of internal controls over documentation of the PHAS submission.
	<b>Reply:</b>	KCHA did not have a reliable system of recording and tracking emergency work orders. The KCHA submitted -0- on the PHAS certification for this sub-indicator. After taking over management of the KCHA's public housing properties, KCDC did a manual search of written emergency work orders and corrected the number to 7 on the PHAS certification based on our findings. Records document that all 7 of the emergency work orders were completed within 24 hours. KCDC's established system of recording and tracking work orders has been used since assumption of management agent duties.
<b>2010-2</b>	<b>Condition:</b>	<b>Deficiencies Noted In the Utility Consumption Schedule Form 52722</b>
		The Authority was not able to provide sufficient documentation to support the figures reported on the HUD Form 52722 Utility Consumption Schedule.
	<b>CFDA Number:</b>	14.850a
	<b>Questioned Costs:</b>	None
	<b>Criteria:</b>	24 CFR Parts 990.170-990.185
	<b>Cause/Effect:</b>	Lack of internal controls over filing and documentation retention.
	<b>Recommendation:</b>	We recommend that the Authority review the system of internal controls over documentation of the Utility Consumption Schedule HUD Form 52722.

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**  
**(Continued)**

<b>2010-2</b>	<b>Condition:</b>	<b>Deficiencies Noted In the Utility Consumption Schedule Form 52722 (Continued)</b>
	<b>Reply:</b>	The insufficient documentation to support the HUD 52722 form was for the CY 2009 operating subsidy calculation. Information was obtained from the utility providers by apartment but the monthly individual bills were not located or provided. This document retention and lack of internal control issue existed prior to KCDC's assumption of management agent duties for KCHA as of September 1, 2009. KCDC has procedures in place to track and retain each individual utility provider billing. This procedure was established for Virginia Walker and Bakertown upon assumption of management agent duties.
<b>2010-4</b>	<b>Condition:</b>	<b>Deficiencies Noted in Maintenance of Low Income Public Housing</b>  The Low Income Public Housing resident file sample consisted of eight files.  7 files lacked timely annual recertification 1 file lacked support for lease up waiting list selection  <b>CFDA Number:</b> 14.850a  <b>Questioned Costs:</b> None  <b>Criteria:</b> 24 CFR regulations regarding Low Income Public Housing and Section 8 Programs and regulations issued by HUD.  <b>Cause:</b> The Authority's controls over maintenance of tenant files during a portion of the fiscal year were not in compliance with HUD requirements.  <b>Effect:</b> The Authority has not been in compliance with various HUD requirements.



**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**  
**(Continued)**

**2010-4**                      **Condition:**                      **Deficiencies Noted in Maintenance of Low Income Public Housing (Continued)**

**Reply:**                      Lack of timely annual recertification—The Low Income Public Housing resident file sample consisted of eight files. Seven files lacked timely annual recertification and one file lacked support for lease up waiting list selection. KCDC began management of KCHA on September 1, 2009. The failure to conduct timely annual recertification in the seven files occurred prior to KCDC taking management. The past omission could not be corrected; however, KCDC put its operating policies and procedures in place to prevent recurrence of failure to complete annual recertification for all households. KCDC's dwelling lease was executed with all KCHA's public housing residents in November 2009, following a resident review and comment period in October 2009.

Residents' incomes and family compositions were verified and rents were adjusted as needed in accordance with income verifications. Re-exam dates were established in accordance with KCDC's policy of annual re-examination. All annual re-certifications have been conducted timely under the new lease.

Lack of support for lease up waiting list selection—KCHA did not have an established, practiced procedure for application and admission. KCDC assumed operations of KCHA's Public Housing Program on September 1, 2009. By September 21, 2009, KCDC's policies and procedures for application and admission had been established. All admissions to public housing since then have been in compliance with HUD approved selection procedures.

**SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**2009-1**                      **Condition:**                      **Ineligible Use of Federal Program Funds**

This finding is cleared.

**2009-2**                      **Condition:**                      **Deficiencies Noted in the Supporting Documentation for Funds Drawn from HUD**

This finding is cleared.

---

**KNOX COUNTY HOUSING AUTHORITY**  
**Knoxville, Tennessee**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**(Continued)**

<b>2009-3</b>	<b>Condition:</b>	<b>Deficiencies Noted in the Supporting Documentation for Cash Disbursements</b>  This finding continues as Finding 2010-3 under Financial Statement Findings.
<b>2009-4</b>	<b>Condition:</b>	<b>Deficiencies Noted in Maintenance of Low Income Public Housing and Housing Choice Voucher Program Participant Files</b>  This finding continues as Finding 2010-4 under Federal Award Findings.
<b>2009-5</b>	<b>Condition:</b>	<b>Deficiencies Noted in Procurement and Contracting Activities</b>  This finding is cleared.
<b>2009-6</b>	<b>Condition:</b>	<b>Deficiencies Noted in the FY 2009 SEMAP Submission</b>  This finding is cleared.
<b>2009-7</b>	<b>Condition:</b>	<b>Operating Deficits and Budget Overruns</b>  This finding is cleared.